

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 EURE-00 AID-05 CIAE-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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P R 211705Z OCT 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9587
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD: TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: MANSION HOUSE ADDRESSES OF CHANCELLOR HEALEY,
GOVERNOR RICHARDSON AND CHAIRMAN GOODISON

SUMMARY: THE ANNUAL ADDRESSES OF THE CHANCELLOR OF THE
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EXCHEQUER AND THE GOVERNOR OF THE BANK OF ENGLAND AT THE
LORD MAYOR'S DINNER ACQUIRED ADDITIONAL IMPORTANCE THIS
YEAR AS THE CHANCELLOR IS PREPARING A MINIBUDGET FOR PRE-
SENTATION THIS WEDNESDAY. CHANCELLOR HEALEY DID NOT
TOUCH ON DETAILS OF THIS PACKAGE, BUT ATTEMPTED TO GIVE
"SOME BACKGROUND AGAINST WHICH THE DECISIONS MUST BE MADE
AND SOME OF THE PROBLEMS WHICH (THE U.K. HAS) YET TO

SOLVE." GOVERNOR RICHARDSON COMPLEMENTED THE CHANCELLOR'S SPEECH WITH HIS VIEWS ON MONETARY POLICY AND THE APPROPRIATE USE OF NORTH SEA OIL. THE CHAIRMAN OF THE STOCK EXCHANGE, MR. NICHOLAS GOODISON, PRESENTED HIS CASE FOR DISMANTLING EXCHANGE CONTROLS IN THE CURRENT FAVORABLE ECONOMIC CLIMATE. END SUMMARY

1. THE CHANCELLOR FIRST REVIEWED THE YEAR'S IMPROVED FINANCIAL CONDITION, NOTING "THIS TURN-AROUND HAS NOT SIMPLY BEEN THE NATURAL RESULT OF NORTH SEA OIL. IT RESULTS FROM THE DRAMATIC SUCCESS OF TWO YEARS OF FISCAL POLICIES WHICH HAVE PRODUCED A BETTER BALANCE BETWEEN PRIVATE AND PUBLIC SPENDING, AND FROM MONETARY POLICIES WHICH HAVE KEPT THE GROWTH OF MONEY BELOW THE GROWTH OF MONEY NATIONAL INCOME SINCE WE TOOK OFFICE IN 1974." PUBLIC EXPENDITURE WILL BE WITHIN PLANNED LIMITS FOR 1977/78, THE PUBLIC SECTOR BORROWING REQUIREMENT IS CURRENTLY RUNNING WELL BELOW THE 8.7 BILLION POUND CEILING, DOMESTIC CREDIT IS CURRENTLY EXPANDING AT 1/3 THE CEILING RATE, AND THE MONEY SUPPLY (M3) IS WITHIN THE 9-13 PERCENT RANGE. THESE POLICIES HAVE PROVIDED A STABLE EXCHANGE RATE WITH GROWING INTERNATIONAL RESERVES. INTEREST RATES HAVE COME DOWN SHARPLY FROM LAST YEAR, WAGE SETTLEMENTS ARE PROVING TO BE MODERATE, AND AFTER THE SETBACKS OF EARLY THIS YEAR, PRICES ARE MODERATING, THE BALANCE OF PAYMENTS IS BEING HELPED BY A STRONG IN-

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CREASE IN MANUFACTURING EXPORTS AS WELL AS BY NORTH SEA OIL REVENUE.

2. CHANCELLOR HEALEY STRESSED THE INTERNATIONAL DIMENSION OF THE PROBLEM OF UNEMPLOYMENT. THE U.S. WAS SINGLED OUT FOR PRAISE IN ASSUMING A LARGE DEFICIT, GERMANY FOR ACKNOWLEDGEMENT IN REDUCING ITS SURPLUS, AND JAPAN FOR REBUKE IN RUNNING A \$10 BILLION SURPLUS WITHOUT APPROPRIATE EXPANSION. THE HIGH GLOBAL LEVEL OF UNEMPLOYMENT WAS CONDEMNED AS A WASTE OF RESOURCES, A CREATOR OF POLITICAL INSTABILITY, AND A THREAT TO FREE WORLD TRADE AND ECONOMIC EFFICIENCY.

3. HEALEY STRESSED THAT ALTHOUGH NEXT WEDNESDAY'S MINIBUDGET WOULD EXPAND DEMAND, IT WOULD BE MODEST. HE CITED THE NEED TO CONTROL THE TEMPO OF EXPANSION, SO THAT DEMAND WOULD NOT OUTPACE THE CAPACITY TO PRODUCE. IN THIS VEIN HE CRITICIZED BRITISH FIRMS FOR THEIR LOW LEVEL OF INVESTMENT AT A TIME WHEN INTERNATIONAL CONFIDENCE IN BRITAIN WAS SWELLING RESERVES, AND WORKERS IN BRITAIN SHOWING SELF-DISCIPLINE IN WAGE NEGOTIATIONS. THIS YEAR GROWTH IN GDP WILL BE LESS THAN ANTICIPATED BECAUSE OF

LOW INVESTMENT AND EXPORT LEVELS. HE WARNED THAT A LOSS OF WAGE RESTRAINT WOULD EVENTUALLY REVERSE THE GAINS IN CONTROLLING INFLATION ACHIEVED IN THE LAST FEW MONTHS.

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4. GOVERNOR RICHARDSON'S REVIEW OF THIS PAST YEAR FOCUS-
ED AS WELL ON THE EXTRAORDINARY TURN-AROUND IN BRITAIN'S
FINANCIAL CONDITION. HE ATTRIBUTED THIS SHIFT TO THE ES-
TABLISHMENT OF CREDIBILITY THAT THE NATION'S NATIONAL
FINANCES COULD BE SET IN ORDER. HIS VIEWS OF THE FUTURE
CONCENTRATED ON THE OUTLINES OF MONETARY POLICY AND THE
PROPER UTILIZATION OF NORTH SEA OIL REVENUES.

5. GOVERNOR RICHARDSON EXPLAINED THAT THE BENEFITS OF

ESTABLISHING MONETARY TARGETS DERIVE FROM THE "ASSURANCE
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THAT MONEY ITSELF WILL NOT BE A SOURCE OF INSTABILITY",
AND IN GIVING "A CLEAR INDICATION TO THOSE RESPONSIBLE
FOR ECONOMIC DECISIONS . . . OF THE LIMIT TO WHICH THE
AUTHORITIES ARE, IN EFFECT, PREPARED TO SEE INFLATION
FINANCED . . . : THE IMPLICATION BEING THAT INFLATION AT
A FASTER RATE WILL INEVITABLY PUT OUTPUT AND EMPLOYMENT
INCREASINGLY AT RISK." THE RELATION BETWEEN MONEY AND
PRICES MUST BE SEEN AS A LONG-RUN RELATION, AND
MONETARY TARGETS MUST BE PART OF REDRESSING THE
INFLATIONARY BIAS OF THE BRITISH ECONOMY. THIS IN TURN
SUGGESTS THAT "THE AVAILABILITY OF MONETARY INSTRUMENTS
FOR OTHER PURPOSES WOULD, OVER TIME, BE SIGNIFICANTLY RE-
DUCED." ALTHOUGH THE SHORT-TERM GROWTH OF MONEY HAS BEEN
ERRATIC, OVER THE 15-MONTH PERIOD SINCE JULY 1976, M3
GREW AT A 9-1/2 PERCENT ANNUAL RATE WHICH IS AT THE BOT-
TOM END OF THE 9-13 PERCENT TARGET RANGE. SUCH A RESULT
WAS ACHIEVED ONLY WITH CONSIDERABLE INNOVATION SUCH AS
THE INTRODUCTION OF PARTIALLY PAID AND VARIABLE RATE
BONDS.

6. THE GOVERNOR ASSERTED THAT SINCE OIL WAS A DEPLETING
ASSET IT WAS PRUDENT TO CONVERT IT INTO A PERMANENT ONE--
"THAT IS TO CREATE ADDITIONAL INCOME-YIELDING ASSETS AND
TO REDUCE INCOME-SAPPING LIABILITIES." HIS PREFERENCE
WAS TO GIVE DEBT REPAYMENT FIRST CALL ON THE PROCEEDS OF
NORTH SEA OIL, ALTHOUGH HE NOTED THAT SOME REFINANCE OF
THE \$20 BILLION OF SOVEREIGN CURRENCY DEBT DUE BETWEEN
NOW AND 1985 COULD BE ENVISAGED. THE PREFERENCE IS NOT
SO MUCH ECONOMIC AS POLITICAL, RECALLING LAST YEAR
"THE EXTENT TO WHICH THE EXTREME WEAKNESS OF OUR BALANCE
SHEET COMPROMISED OUR INDEPENDENCE." STRENGTHENING THIS
BALANCE SHEET WILL "ENSURE THAT OUR VOICE IS FULLY EFFEC-
TIVE IN THE COUNCILS OF EUROPE AND THE WORLD," ONCE
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AGAIN.

7. HE SET OUT PRIORITIES FOR DOMESTIC INVESTMENT AS
THE DEVELOPMENT OF NEW ENERGY SOURCES, AND THE PROVISION
OF GREATER LABOR PRODUCTIVITY. THE NEW ENERGY SOURCES
AND ADDED CONSERVATION WERE NECESSARY TO COMPENSATE FOR
THE LOSS OF NORTH SEA OIL BEFORE THE YEAR 2000. PROBLEMS
OF RE-EQUIPPING BRITISH INDUSTRY TO SECURE GREATER PROD-

ACTIVITY ARE NOT SEEN AS FINANCIAL PROBLEMS PER SE, BUT AS PROBLEMS OF FOCUSING ATTENTION AND OF ASSURING THE PROFITABILITY OF SUCH INVESTMENT.

8. THE GOVERNOR SUPPORTED THE FUTURE RELAXATION OF CONTROLS ON DIRECT FOREIGN INVESTMENT. HE NOTED THAT THIS PROVIDED A GOOD FLOW OF OVERSEAS EARNINGS AND WOULD COMPLEMENT RATHER THAN DAMAGE A POLICY OF ENCOURAGING GREATER DOMESTIC CAPITAL FORMATION. IN THIS LIGHT, HE NOTED THE NEED TO AID INVISIBLE INTERNATIONAL TRADE WITH ADDITIONAL CAPITAL RESOURCES AS WELL.

9. MR. GOODISON CALLED FOR DISMANTLING EXCHANGE CONTROLS, EDUCATING PEOPLE ON THE RESPECTABILITY OF TRADE AND INDUSTRY IN THE U.K., AND FOR ADDED RETURNS TO THOSE WHO INVEST IN DEBT AND RISK CAPITAL. HE NOTED THE CONTRIBUTION WHICH EARNINGS OF THE CITY MAKE TO BRITAIN'S BALANCE OF PAYMENTS AND STANDARD OF LIVING, AND SUGGESTED THAT THE CHANCELLOR MIGHT WISH TO BACK A WINNER. HE SAW A NEED TO DOWNGRADE THE LEVEL OF STATE INTERVENTION IN THE ECONOMY, REDUCE TAXES, TO ESTABLISH GREATER COOPERATION WITH THE UNIONS AND THE ACCEPTANCE OF NEED FOR PROFITS FOR INDUSTRY.

10. THE TEXTS OF CHANCELLOR HEALEY'S AND GOVERNOR RICHARDSON'S SPEECHES ARE AVAILABLE IN THE FINANCIAL TIMES AND TIMES OF FRIDAY, OCTOBER 21.

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Message Attributes

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THE ANNUAL ADDRESSES OF THE CHANCELLOR O
TAGS: EFIN, UK, (HEALY, DENIS), (RICHARDSON), (GOODISON)
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